

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 SP-02 USIA-06 AID-05 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03
H-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 /085 W
-----087007 071523Z /46

R 071330Z JUL 77
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC 9537
INFO AMEMBASSY BELGRADE
AMEMBASSY BERLIN
USMISSION BERLIN UNN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMCONSUL FRANKFURT
AMEMBASSY LONDON
USMISSION NATO
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY VIENNA
AMEMBASSY WARSAW

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 9756

E.O. 11652: GDS
TAGS: EFIN, EEWT, COMECON, UR, US
SUBJECT: SOVIETS KEEP THE HEAT ON BANK OF AMERICA

REFS: (A) MOSCOW 8428, (B) MOSCOW 7797 (NOTAL)

SUMMARY: ATTEMPTS AT ASSUAGEMENT (REF B) NOTWITHSTANDING,
BANK OF AMERICA APPARENTLY FEELS ITSELF UNDER STRONG
SOVIET PRESSURE TO PROVIDE A BIG LOAN. JUNE 20 BUSINESS
WEEK ARTICLE ON ERMAN SUCCESS IN INTERNATIONAL INVESTMENT
BANK (IIB) SYNDICATED LOAN, TOGETHER WITH STATEMENTS BY
SOVIET AND CEMA BANK OFFICIALS, HAS CONTRIBUTED TO THIS
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SENSE OF PRESSURE. AT SAME TIME, BANK OF AMERICA HAS
PERCEIVED INDICATIONS OF TOUGHER SOVIET BARGAINING OVER
FINANCING OF IMPORTS. END SUMMARY.

1. DESPITE VISIT BY BANK OF AMERICA EXECUTIVE VICE
PRESIDENT ARMACOST IN MAY AND CONVERSATIONS BETWEEN SOVIET
STATE BANK DIRECTOR ALKHIMOV AND B OF A PRESIDENT CLAUSEN

IN THE US IN JUNE, BANK OF AMERICA CONTINUES TO FEEL THE HEAT HERE FROM SOVIET AND CEMA BANK OFFICIALS IN WAKE OF LAST JANUARY'S ABORTIVE SYNDICATE LOAN FOR THE INTERNATIONAL BANK FOR ECONOMIC COOPERATION (IBEC). BUSINESS WEEK ARTICLE, CONTRASTING GERMAN BANKS' SUCCESS WITH B OF -S BACKING OUT OF IBEC LOAN AT LAST MINUTE, HAS CONTRIBUTED TO SENSE OF FRUSTRATION AT OWN INACTIVITY ON PART OF LOCAL B OF A REPRESENTATIVE (PLEASE PROTECT AS SOURCE). LATTER WAS TOLD BY ALKHIMOV AT JULY 4 RECEPTION THAT IMPROVEMENT IN RELATIONS IS "ALL UP TO YOU," AN OLD SOVIET REFRAIN BUT DISTURBING BECAUSE IT PERSISTS. IBEC OFFICIAL ROBERT SVETKOPF, A SOVIET CITIZEN, NEEDLED B OF A REPRESENTATIVE RECENTLY ABOUT NEED TO IMPLEMENT ARMACOST'S "COMMITMENT" IN THIS RESPECT. (B OF A REPRESENTATIVE CONCEDED TO E/C COUNSELOR THAT SUCH A "COMMITMENT" HAD INDEED BEEN MADE BY ARMACOST TO HELP GET OUT OF THE COMMON "MESS" BUT SAID IT WAS IN SENSE OF PROPOSING A MUTUAL COMMITMENT TO WORK TO RECTIFY SITUATION; SOVIETS, CHARACTERISTICALLY, ARE DEEMING IT A ONE-SIDED COMMITMENT BY B OF A TO GET BACK INTO THEIR GOOD GRACES.)

2. IT IS NOW OPEN AGAIN AS TO WHETHER IBEC MIGHT MOVE IN DIRECTION OF REGISTRATION, AS ALKHIMOV HAD APPARED TO HINT (REFTELS). SVETKOPF TOLD BANK OF AMERICA REPRESENTATIVE THAT IBEC HAD RECEIVED A NEW AND FAVORABLE LEGAL OPINION RE IBEC STATUS BY A "CAMBRIDGE CONFIDENTIAL

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LAWYER" NAMED PERRY, BUT HE COULD NOT LOCATE THE FINDING. IN SEPARATE CONVERSATION THIS WEEK WITH MORGAN GUARANTY TRUST COMPANY VICE PRESIDENTS BARANETSKY AND NOBLE, IBEC OFFICIAL STASTNY (CZECH) ALSO REFERRED TO "SEVERAL" NEW AND FAVORABLE BRITISH LEGAL OPINIONS ABOUT IBEC, GIVING NAMES DONALDSON AND IVORY AND SIME. BOTH B OF A AND MORGAN GUARANTY OFFICIALS DREW INFERENCE IBEC WAS WAITING TO SEE IF IIB SUCCESS - AND PASSAGE OF TIME - MIGHT CLEAR THE COAST FOR A NEW IBEC VENTURE IN LONDON MARKET IN SIX MONTHS OR SO. IBEC HAS STEADILY MAINTAINED THAT IT FOUND ANOTHER WAY OF DEALING WITH LOST \$200 MILLION OF JANUARY AND THAT IT CURRENTLY NEEDS NO WESTERN LOAN.

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3. AS A CONSEQUENCE OF THIS, B OF A IS STILL FEELING THE
HEAT, AND ITS REPRESENTATIVE SAID THAT HE WILL FEEL
PERSONALLY RELIEVED WHEN \$100 AND \$60 MILLION LOANS TO
SOVIET FOREIGN TRADE BANK (VTB) CURRENTLY UNDER NEGOTIATION
ARE IN "TOMBSTONES," SINCE THIS WILL BE OVERT DEMONSTRATION
OF ITS "ACTIVITY." (REPRESENTATIVE STILL WAS NOT PREPARED
TO IDENTIFY THE PURPOSE OF THESE TWO PENDING TRANSACTIONS.)
ASKED IF THIS WOULD ALSO HELP WITH IBEC, THE REPRESENTATIVE
TOLD COUNSELOR THAT IBEC HAD SAID IT WOULD. (B OF A
REP MAY BE TOO SENSITIVE; MORGAN GUARANTY OFFICIALS, FOR
EXAMPLE, REPORTED THAT SOVIET BANKERS SPOKE WELL OF B OF A
WHILE NEVER MENTIONING TORONTO DOMINION, THE OTHER LEADING
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BANK IN THE ABORTED SYNDICATE.) REPRESENTATIVE INSISTED THAT
DESPITE THIS SENSE OF PRESSURE, B OF A WOULD NEVER
MAKE A LOAN TO USSR OR CEMA BANKS UNLESS IT WERE DEEMED
TO ITS OWN ADVANTAGE.

4. BANK OF AMERICA REPRESENTATIVE ALSO INFORMED COUNSELOR
OF VARIOUS MANIFESTATIONS OF WHAT HE TOOK TO BE A TIGHTENED
CREDIT SITUATION IN THE USSR. THE FOREIGN TRADE CORPORATION

MASHPRIBORINTORG HAD TOLD HIM IT WAS "OUT OF FUNDS" FOR PURCHASE OF SOME SEISMOGRAPHIC EQUIPMENT FOR THE MINISTRY OF GEOLOGY (A HIGH PRIORITY ITEM) THE PURCHASE OF WHICH WAS MADE ON CREDIT WHEREAS IT FORMERLY WOULD HAVE BEEN CASH. SEVERAL OTHER FOREIGN TRADE ORGANIZATIONS ARE IN THE SAME SITUATION, ACCORDING TO THE B OF A REP. HE ALSO REPORTED THAT VTB HAS ON THREE OCCASIONS TRIED (UNSUCCESSFULLY) TO GET B OF A TO DROP GUARANTEE CLAUSE TO SUBMIT CLAIMS TO SETTLEMENT UNDER LAW OF NEW YORK STATE. STILL ANOTHER INDICATION, ACCORDING TO HIM, WAS THE FAILURE OF INTERNATIONAL HARVESTER AND CATERPILLAR TO SIGN CONTRACTS FOR WHICH "CELEBRATIONS" HAD BEEN PLANNED IN ADVANCE BY THE US FIRMS (NEIGHTER FIRM HAS TOLD US OF ANY SUCH EVENTS BUT CATERPILLAR DID HOLD A "RECEPTION" FOR NO STATED PURPOSE. REPRESENTATIVE THOUGH THAT "SOMETHING IS IN THE AIR.") HE LAMENTED, IN THIS CONTEXT, THAT REPRESENTATIVES OF WEST EUROPEAN BANKS IN MOSCOW ARE HIGHLY RELUCTANT TO DISCUSS COMMON BUSINESS CONCERNS, WITH WEST GERMAN BANKERS BEING THE MOST CLOSE MOUTHED OF ALL.

5. COMMENT: ALLOWING FOR A CERTAIN SENSE OF ISOLATION ON PART OF BANK OF AMERICA REPRESENTATIVE - A COMPETENT AND PLEASANT INDIVIDUAL WHO APPEARS TO BE LIKED AND RESPECTED BY SOVIET COLLEAGUES - THE VIEWS HE EXPRESSED TO REFLECT THE COMPETITIVE IMPULSE AMONG WESTERN BANKERS TO SHOW

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"ACTIVITY" AND RECORD "SUCCESS" BY MAKING LOANS TO SOVIET AND CEMA BANKS. BUSINESS WEEK'S REFERENCE TO WEST GERMAN "GLOATING" AT "SUCCESS" COMPARED TO B OF A'S INEPTITUDE IS THE SORT OF COMMENT WHICH IS USED BY THE SOVIETS SKILLFULLY TO ENCOURAGE THE BIDDING AND TO GOAD THE LAGGARDS. SOME AMERICAN BANKERS (E.G., BARANETSKY OF MORGAN GUARANTY) CLAIM THAT THE GERMANS WILL SURELY SOON RUN OUT OF MONEY AND THE SOVIETS WILL BECOME LESS COCKY. ON BALANCE, HOWEVER, IT APPEARS THAT ANY TIGHTENING UP ON IMPORTS BY SOVIETS - IF THIS IS INDEED OCCURRING - STEMS FROM THE SOVIETS OWN EVALUATION OF THEIR PROSPECTS AND NOT FROM INAVAILABILITY OF MONEY ON EUROCURRENCY MARKET. AS FOR IBEC, THE QUESTION OF REGISTRATION APPEARS TO BE A MATTER OF PRESTIGE AND IT IS STILL DIFFICULT TO FORECAST HOW LONG IT WILL CONTINUE TO WAIT AND SEE BEFORE MOVING EITHER TO ACCOMMODATE ANGLO-US BANKS OR TO TRY TO CALL THEIR BLUFF.

6. FOR USNATO: FOREGOING FOR YOUR BACKGROUND ONLY.
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Message Attributes

Automatic Decaptioning: X
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